

**REPORT OF THE AUDIT OF THE  
CLAY COUNTY  
CLERK**

**For The Year Ended  
December 31, 2004**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE CLAY COUNTY CLERK**

**For The Year Ended  
December 31, 2004**

The Auditor of Public Accounts has completed the Clay County Clerk's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$17,571 from the prior year, resulting in excess fees of \$59,164 as of December 31, 2004. Revenues decreased by \$76,281 from the prior year and expenditures decreased by \$58,710.

#### **Debt Obligation:**

Leases payable totaled \$7,194 as of December 31, 2004. Future principal and interest payments of \$7,194 are needed to meet this obligation.

#### **Report Comment:**

- The County Clerk Should Properly Bid Expenditures

#### **Deposits:**

The Clerk's deposits were insured and collateralized by bank securities.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable James Garrison, Clay County Judge/Executive  
Honorable Freddy W. Thompson, Clay County Clerk  
Members of the Clay County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Clay County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2004, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 11, 2006, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable James Garrison, Clay County Judge/Executive  
Honorable Freddy W. Thompson, Clay County Clerk  
Members of the Clay County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk Should Properly Bid Expenditures

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Clay County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
April 11, 2006



CLAY COUNTY  
 FREDDY W. THOMPSON, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

State Fees For Services		\$	9,576
Fiscal Court			83,845
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	501,464	
Usage Tax		1,040,181	
Tangible Personal Property Tax		856,963	
Vehicle Transaction Records		2,217	
Other-			
Fish and Game Licenses		4,870	
Marriage Licenses		7,521	
Occupational Licenses		1,030	
Election Fees		840	
Entertainment Permits		40	
Solicitor License		5	
Deed Transfer Tax		19,048	
Delinquent Tax		200,697	2,634,876
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	11,379	
Real Estate Mortgages		8,508	
Chattel Mortgages and Financing Statements		77,682	
Powers of Attorney		975	
All Other Recordings		27,180	
Charges for Other Services-			
Copywork		10,447	136,171
Other:			
Refunds			5,037
Interest Earned			976
Total Revenues		\$	2,870,481

The accompanying notes are an integral part of this financial statement.

CLAY COUNTY  
 FREDDY W. THOMPSON, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2004  
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 394,503
Usage Tax	1,009,157
Tangible Personal Property Tax	382,978

Licenses, Taxes, and Fees-

Fish and Game Licenses	4,327
Delinquent Tax	26,301
Legal Process Tax	18,993
Election Fees	420
	<u>\$ 1,836,679</u>

Payments to Fiscal Court:

Tangible Personal Property Tax	\$ 96,953
Delinquent Tax	20,025
Deed Transfer Tax	18,096
Occupational Licenses	848
	<u>135,922</u>

Payments to Other Districts:

Tangible Personal Property Tax	\$ 335,769
Delinquent Tax	101,613
	<u>437,382</u>

Payments to Sheriff 3,923

Payments to County Attorney 28,293

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 178,664
Overtime	2,311

Employee Benefits-

Employer's Share Social Security	18,305
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Contracted Services-

Printing and Binding	3,224
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Materials and Supplies-

Office Supplies	14,742
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The accompanying notes are an integral part of this financial statement.

CLAY COUNTY  
 FREDDY W. THOMPSON, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2004  
 (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges-

Conventions and Travel	\$	2,919
Dues		3,178
Postage		7,051
Miscellaneous		3,244

Capital Outlay-

Office Equipment	<u>65,381</u>	\$	299,019
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Total Expenditures	\$	<u>2,741,218</u>
Net Revenues	\$	129,263
Less: Statutory Maximum		<u>64,953</u>
Excess Fees	\$	64,310
Less: Expense Allowance		3,600
Training Incentive Benefit		<u>1,546</u>
Excess Fees Due County for 2004	\$	59,164
Payment to Fiscal Court - January 13, 2005		58,776
Payment to Fiscal Court - June 8, 2005		<u>388</u>
Balance Due Fiscal Court at Completion of Audit	\$	<u><u>0</u></u>

The accompanying notes are an integral part of this financial statement.

CLAY COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CLAY COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2004  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2004, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the County Clerk's agent in the County Clerk's name.

Note 4. Lease Agreement

The office of the County Clerk is committed to a lease agreement with USBancorp for a postage machine and scale. The agreement requires a monthly payment of \$109 for 72 months to be completed on June 10, 2010. The total balance of the agreement was \$7,194 as of December 31, 2004.

CLAY COUNTY  
FREDDY W. THOMPSON, COUNTY CLERK  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The County Clerk Should Properly Bid Expenditures

The County Clerk did not properly bid expenditures. During 2004, the County Clerk purchased a computer system for the deed room in the amount of \$58,831. This amount exceeds the bid threshold established by state law and the county's administrative code. KRS 424.260 states, "(1) Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids. (2) If the fiscal court requires that the sheriff or county clerk advertise for bids on expenditures of less than twenty thousand dollars (\$20,000), the fiscal court requirement shall prevail. ... (4) This requirement shall not apply in an emergency if the chief executive officer of the city, county, or district has duly certified that an emergency exists, and has filed a copy of the certificate with the chief financial officer of the city, county, or district, or if the sheriff or the county clerk has certified that an emergency exists, and has filed a copy of the certificate with the clerk of the court where his necessary office expenses are fixed pursuant to KRS 64.345 or 64.530, . . . ." Clay County Fiscal Court has set a bid threshold of \$5,000, therefore the county clerk should advertise for bids on goods and services (as indicated above) if the amount is in excess of \$5,000. We recommend the County Clerk properly bid all expenditures as required.

*County Clerk's Response:*

*I went before the Clay Co Fiscal Court and told them that our computer system was going down. They all agreed to give some excess to buy the system. It was an emergency. The court said nothing about bids. With one year in office I was not aware of this and nobody told me the requirements.*

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

None.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable James Garrison, Clay County Judge/Executive  
Honorable Freddy W. Thompson, Clay County Clerk  
Members of the Clay County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Clay County Clerk for the year ended December 31, 2004, and have issued our report thereon dated April 11, 2006. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clay County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Clay County Clerk's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards which is described in the accompanying comment and recommendation.

- The County Clerk Should Properly Bid Expenditures



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
April 11, 2006

